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TO RUEHC/SECSTATE WASHDC 3221
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INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3492
RUEHBJ/AMEMBASSY BEIJING 6003
RUEHUL/AMEMBASSY SEOUL 8286
RUEHGP/AMEMBASSY SINGAPORE 6699
RUEHKO/AMEMBASSY TOKYO 8254
RUEHML/AMEMBASSY MANILA 9852
RUEHJA/AMEMBASSY JAKARTA 3952
RUEHKL/AMEMBASSY KUALA LUMPUR 3601
RUEHHI/AMEMBASSY HANOI 3167
RUEHBY/AMEMBASSY CANBERRA 4380
RUEHWL/AMEMBASSY WELLINGTON 1628
RUEHHK/AMCONSUL HONG KONG 7227
RUEHGH/AMCONSUL SHANGHAI 0578
RUEHGZ/AMCONSUL GUANGZHOU 9761

UNCLAS SECTION 01 OF 03 TAIPEI 003986

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STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Taiwan's Latest Economic Vision

SUMMARY

1. (U) Taiwan recently announced a new ten-year economic plan to double per capita GDP. In the first three-year phase, Taiwan will encourage investment by reducing land costs and ensuring sufficient labor supply. The first phase will require investment of NT\$3,287.2 billion (US\$99.6 billion at exchange rate of NT\$33 per US Dollar), of which 93.2% will come from the private sector and 6.8% from the public sector. END SUMMARY.

Long-term Goals

2. The Executive Yuan (EY) recently approved a set of long-term economic goals: doubling Taiwan's per capita GDP from an estimated US\$15,690 in 2006 to US\$30,000 in 2015, increasing annual average economic growth to 5% (higher than the 4.5% average of the past ten years), and keeping unemployment below 4% and inflation below 2%.

Services Expand, Agriculture & Industry Shrink

3. The Ministry of Economic Affairs' (MOEA's) vision projects the service sector will grow by an average annual rate of 5.5%, industry at a rate of 4.3%, and agriculture at a rate of 1% per year. Output of the service sector will increase from 73.3% of GDP in 2006 to 76.2% in 2015. Agriculture's share of GDP will decline from the current 1.7% to 1.2%, while industry's share shrinks from 25% to 22.7%.

4. MOEA identifies four key industries that will emerge in the next ten years: wireless broad-band, digital home, health care, and green industries (including renewable energy solar photovoltaic, clean production, and energy-saving ones). The production of these four

industries in Taiwan will increase from an estimated US\$40 billion in 2009 to US\$157 billion in 2015. This would represent a doubling of these industries' share of GDP.

Reduce Land Costs

15. MOEA calls for measures to lower land costs and ensure sufficient labor to sustain Taiwan's continued industrial development. Stage one includes a three-year program (2007-2009) to lease 100 hectares of state-owned land to investors rent-free for the first four years and 50% off for the next six years. MOEA will also extend a current land rent program from December 2006 to December 2008. Under a six-year program, MOEA will subsidize investors in leasing industrial park lands rent-free for the first two years, discounted 40% for the next two years, and 20% for the last two years. In addition to other low-cost land programs, MOEA will help unregistered factories legalize their land usage.

Sufficient Labor Supply

16. MOEA and the Council of Labor Affairs (CLA) will work together to help factories improve their working environment, safety and sanitation. The authorities will permit three-shift manufacturing plants to use foreign labor working in the night shift. Taiwan will review policies to increase the supply of foreign workers and extend the period of their stay in Taiwan.

Funding Assistance

17. MOEA will increase credit guarantees for small and medium

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enterprises (SMEs, which account for 95% of the number of registered manufacturing firms in Taiwan). Under the new plan, guaranteed loans to SMEs over the next three years will total NT\$1.6 trillion (US\$48.5 billion).

Required Investment

18. Investment required in the first three-year phase of the plan will total NT\$3,287 billion (US\$99.6 billion). The private sector will contribute 93.2% of the total funding or NT\$3,064.7 billion (US\$92.9 billion). The remaining 6.8% or NT\$222.56 billion (US\$6.7 billion) will come from the public sector, including NT\$146.6 billion (US\$4.44 billion) from the central authorities and NT\$75.9 billion (US\$2.3 billion) from state-owned enterprises. MOEA will help channel investments into the designated industries.

Targeted Industries -- Service Sector

19. MOEA expects to increase output of the service sector from NT\$8.2 trillion (US\$248.5 billion) in 2005 to NT\$10.3 trillion (US\$312.1 billion) in 2009. During this period, employment in the sector will increase from 5,793,000 to 6,327,000, and labor productivity will rise from NT\$1.41 million (US\$42,424) per person to NT\$1.63 million (US\$49,394). The plan identifies seven top services with great potential in Taiwan, each projected to have annual production value exceeding NT\$300 billion (US\$9.1 billion) in 2009:

--Financial Services (Banking, Securities and Insurance): Annual production will increase from NT\$1.2 trillion (US\$36.4 billion) in 2005 to NT\$1.5 trillion (US\$45.4 billion) in 2009.

--Logistics and Distribution: Annual sales will increase from NT\$2.2 trillion (US\$66.7 billion) in 2005 to NT\$2.6 trillion (US\$78.8 billion) in 2009.

--Medical Care: Annual sales will grow from NT\$696.2 billion (US\$21 billion) in 2005 to NT\$772.4 billion (US\$23.4 billion) in 2009.

--Digital Content: Annual sales will surge from NT\$290.2 billion (US\$8.8 billion) in 2005 to NT\$515 billion (US\$15.6 billion) in 2009.

--Tourism: Annual sales revenue will increase from NT\$356.1 billion (US\$10.8 billion) in 2005 to NT\$448.3 billion (US\$13.6 billion) in 2009.

--Telecommunications: Annual sales will grow from NT\$377 billion (US\$11.4 billion) in 2005 to NT\$430 billion (US\$13 billion) in 2009.

--Information Services: Annual sales revenue will grow from NT\$211.8 billion (US\$6.4 billion) in 2005 to NT\$318 billion (US\$9.6 billion) in 2009.

Targeted Industries -- Manufacturing Sector

10. Manufacturing production is projected to increase from NT\$11.7 trillion (US\$354.5 billion) in 2005 to NT\$14 trillion (US\$424 billion) in 2009. During this period labor productivity per person of the sector will increase from NT\$980,000 (US\$29,697) per person to NT\$1.24 million (US\$37,576). Semiconductor and LCD-panel production will remain the backbone of the manufacturing sector over the next three years. Five industries whose annual output will exceed NT\$1 trillion (US\$30.3 billion) in 2009 are:

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--Semiconductor: Annual production will nearly double from NT\$1.1 trillion (US\$33.3 billion) in 2005 to NT\$2 trillion (US\$60.6 billion) in 2009. There will be 18 12-inch silicon wafer fabs, including eight new 12-inch wafer fabs.

--LCD Display Panels: Annual production will surge from NT\$927 billion (US\$28 billion) in 2005 to NT\$1.6 trillion (US\$48.5 billion) in 2009. There will be 17 LCD-panel plants, including four plants beyond 7th generation technology.

--Petrochemicals: Annual production will grow from NT\$1.2 trillion (US\$36.4 billion) in 2005 to NT\$1.5 trillion (US\$45.5 billion) in 2009. Taiwan's world ranking in ethylene output will advance from 12th place to eighth.

--Iron and Steel: Annual production will grow from NT\$909 billion (US\$27.5 billion) in 2005 to NT\$1.1 trillion (US\$33.3 billion) in 2009.

--Machinery: Annual production will grow from NT\$640 billion (US\$19.4 billion) in 2005 to NT\$1.1 trillion (US\$33.3 billion) in 2009. Taiwan's world ranking in machine tool output will advance from fifth to fourth.

COMMENT

11. The MOEA industrial development plan entails dramatic industrial transformation. MOEA believes this is needed to ensure Taiwan's continued economic competitiveness amid international integration trends. Taiwan has to follow the footsteps of other developed economies by expanding its service sector while losing agriculture and manufacturing.

12. Capital to fund these development plans should not be any problem to Taiwan which is currently experiencing excess liquidity. In addition, with little restriction on capital flows, additional foreign funds may be attracted to Taiwan by these development plans.

YOUNG